

WATER/ICRJ/FLC/KKL/RHG

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
AUDIT AND COMPLIANCE BRANCH**

**RESOLUTION W-4482
July 8, 2004**

R E S O L U T I O N

RESOLUTION W-4482. YERBA BUENA WATER COMPANY (YBWC). REQUEST FOR AUTHORIZATION TO SECURE A LOAN IN THE AMOUNT OF \$50,000 AND TO ENCUMBER ITS ASSETS IN CONNECTION WITH THE LOAN.

By Advice Letter No. 28 filed on May 6, 2004.

SUMMARY

This Resolution grants YBWC the authority requested in Advice Letter (AL) No. 28.

YBWC requests authority pursuant to §§ 816 through 830 of the Public Utilities (Pub. Util.) Code to borrow a total of \$50,000 for water system improvements from a private lender and to encumber its assets in connection with the loan.

Notice of AL No. 28 was made by publication in the Commission's Daily Calendar of May 10, 2004. No protests have been received.

BACKGROUND

YBWC is a Class D water utility subject to the jurisdiction of this Commission. YBWC provides water to 224 metered rate customers in an area adjacent to the Pacific Ocean, Ventura County.

Pursuant to its Year 2003 Annual Report, YBWC reported that it generated total operating revenues of \$120,009 and net loss of \$21,096. The company's balance sheet is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$ 74,377
Current and Accrued Asset	57,397
Other Assets	<u>58,698</u>
Total Assets and Deferred Charges	<u>\$190,472</u>
<u>Liabilities & Equity</u>	
Capital and Retained Earnings	(\$228,893)
Long-Term Debt	261,127
Current and Accrued Liabilities	145,596
Contributions in Aid of Construction	<u>12,642</u>
Total Liabilities & Equity	<u>\$190,472</u>

DISCUSSION

On April 2, 2004, YBWC's main production well, Well 5, of 450 gallons per minute became un-operable due to a broken well shaft. At the same day, the utility's standby well, Well 6, drilled in 2002 was brought on line to supply the district with a production of 130 gallons per minute during the down time of Well 5.

The new electric panel automatic system for Well 6 malfunctioned over that weekend and consequently, its 210,000-gallon storage tank was drawn down to 1/3 of its capacity. This created low water pressure for some customers. Well 6 was manually brought back by 12:00 noon on April 5, 2004.

At that time, YBWC made an arrangement with Ike's Pump and Drilling, Inc. (IPD) to install on loan, a 40-horse power submersible pump, with 300 feet of pipe, capable of producing 450 gallons per minute to Well 5. Well 6 and the temporary set up of Well 5 are currently supplying YBWC's water distribution system and storage with adequate potable water. YBWC has been serviced by IPD for many years.

Because YBWC's Well 5 is its main production well, the steel shaft in this 547-foot well requires immediate repair. Summer is approaching and Well 5 needs to produce 550 gallons per minute.

YBWC proposes to install the following:

1. 547 feet of 10-inch steel casing liner at an estimated cost of \$24,599 into the existing 12-inch steel casing installed to a depth of 547 feet in 1968. There are four holes in this 12 inch casing that cannot be repaired. The existing 10-inch steel column pipe of 30 sections of 10 feet in length with bowls pulled from Well 5 will not fit into the new 10-inch liner. The 50 horse turbine pump plus the repaired new steel shaft that broke and repaired column pipe plus new bowls will be saved by YBWC and will be used in the anticipated drilling of a new Well 7 that will have a 12 inch casing.
2. New Sim Flo 50 horse stainless steel submersible pump to a depth of 340 feet that will pump 540 gallons per minute. The estimated cost of a new pump is \$22,046.

The cost break down follows:

Description	Total
<u>10" Steel Casing Liner</u>	
Permits & Materials	\$18,399.00
Labor	<u>6,200.00</u>
Sub-Total	<u>\$24,599.00</u>
<u>Submersible Pump</u>	
Materials	\$16,553.00
Tax	1,365.63
Labor	<u>4,128.00</u>
Sub-Total	<u>\$22,046.63</u>
Contingency (consultant fee, etc.)	<u>\$ 3,354.37</u>
Total	<u>\$50,000.00</u>

YBWC proposes to secure a \$50,000 loan from a private lender at a projected interest rate of 8% and a term of 10 years. YBWC disclosed its preference for rate base treatment of the loan.

YBWC's capital ratios as of December 31, 2002, are presented below as recorded and adjusted to give pro forma effect to the \$50,000 loan:

	<u>Recorded</u>		<u>Adjustment</u>		<u>Proforma</u>	
Long-Term Debt	\$246,861	65.47%	\$50,000		\$296,861	69.51%
Short-Term Debt	<u>0</u>	<u>0.00%</u>	<u>-</u>		<u>0</u>	<u>0.00%</u>
Total Debt	\$246,861	65.47%	\$50,000		\$296,861	69.51%
Preferred Stock	0	0.00	-		0	0.00%
Common Stock &						
Paid-In Capital	<u>\$130,192</u>	<u>34.53%</u>	<u>-</u>		<u>\$130,192</u>	<u>30.49%</u>
Total Equity	\$377,053	100.00%	\$50,000		\$427,053	100.00%

This Commission will authorize YBWC's financing request. YBWC is faced with a system problem and the requested funding is necessary to finance the capital expenditures required for the immediate restoration of Well 5.

Pursuant to Pub. Util. Code § 853(b), we will also permit YBWC to encumber its assets, as long as it serves to secure the debt we are authorizing herein.

We will not make a finding in this resolution concerning the ratemaking treatment of YBWC's plant investment or a reasonableness review of YBWC's operations. Construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in general rate cases or other ratemaking proceedings. Authorization for rate base recovery should be by separate advice letter filing.

This is an uncontested matter in which the Resolution pertains solely to a water company. Accordingly, pursuant to Pub. Util. Code § 311(g)(3), the 30-day period for public review and comment under § 311(g)(1) does not apply.

FINDINGS

1. The proposed repairs and improvements to Well 5 are needed to provide quality and reliable water supply and to preserve and lengthen the useful life of YBWC's water system.
2. The proposed loan provides capital for the needed water system improvements and is a prudent means of acquiring the estimated \$50,000 capital.
3. The proposed borrowing is for proper purposes.
4. YBWC should pay the fee determined in accordance with Pub. Util. Code § 1904(b).

THEREFORE, IT IS ORDERED that:

1. Yerba Buena Water Company on or after the effective date of this order is authorized to borrow up to \$50,000, upon terms and conditions substantially consistent with those set forth in Advice Letter No. 28; to execute and deliver a loan contract with the lender; and to use the proceeds for the purposes specified in Advice Letter No. 28.
2. Yerba Buena Water Company is authorized to encumber its assets in connection with the debt issue.
3. Yerba Buena Water Company shall file with the Water Division a copy of the loan documents within 15 days of execution.
4. Yerba Buena Water Company shall notify the Water Division in writing of the completion date of the project.
5. Yerba Buena Water Company shall upon completion of the project provide the Water Division a summary detailing the amount of the loan and disbursements related to this order.

6. The authority granted by this order shall become effective when Yerba Buena Water Company pays \$100¹, the fee set forth by Public Utilities Code § 1904.
7. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on July 8, 2004; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Deputy Executive Director

MICHAEL R. PEEVEY
President

CARL W. WOOD

LORETTA M. LYNCH

GEOFFREY F. BROWN

SUSAN P. KENNEDY

Commissioners

¹ The amount subject to the fee is \$50,000. The fee is determined as follows: $(\$2 \times (50,000/1,000)) = \100 .